

RESOLUTION NO. 06-13

**RESOLUTION OF THE
CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
APPROVING AND ADOPTING AN INVESTMENT POLICY**

WHEREAS, pursuant to Government Code Section 63052(d), the I-Bank may direct the State Treasurer to invest moneys in the California Infrastructure and Economic Development Bank Fund ("I-Bank Fund") that are not required for its current needs in any eligible securities specified in Section 16430; and

WHEREAS, pursuant to Government Code Section 63062(a), the I-Bank may direct the State Treasurer to invest moneys in the California Infrastructure Guarantee Trust Fund ("Guarantee Trust Fund") that are not required for its current needs in any eligible securities specified in Section 16430 or any of the other investments described in Section 630632(a) or (b); and

WHEREAS, pursuant to Government Code Section 5922(d), the proceeds of bonds and any moneys set aside and pledged to secure payment of the bonds, may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds or the contract and may be pledged to and used to service any of the contracts or agreements entered into pursuant to this section; and

WHEREAS, the I-Bank Fund and Guarantee Trust Fund are held in the State Treasury, and funds related to the Infrastructure State Revolving Fund Program Revenue Bonds and certain other bonds issued by the I-Bank for which the I-Bank is responsible for investing the funds are held by bond trustees; and

WHEREAS, the I-Bank has determined a need to formalize its investment practices for the investment of such funds by adopting an investment policy as set forth in Exhibit A attached hereto (the "Investment Policy"); and

WHEREAS, pursuant to Government Code Sections 63023 and 63025.1, the California Infrastructure and Economic Development Bank ("I-Bank") is authorized to delegate to the Executive Director the authority to invest I-Bank funds.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the California Infrastructure and Economic Development Bank, as follows:

Section 1. Recitals. The above recitals are true and correct.

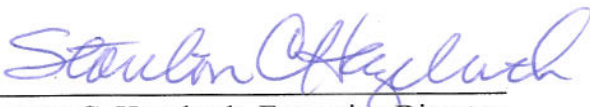
Section 2. Adoption of Investment Policy. The Board of Directors hereby approves and adopts the Investment Policy in the form attached hereto as Exhibit A.

Section 3. Authorization. The Board of Directors hereby directs and authorizes the Executive Director to implement the Investment Policy.

Section 4. Effective Date. This resolution shall take effect from and after its adoption.

PASSED, APPROVED AND ADOPTED at a meeting of the California Infrastructure and Economic Development Bank on March 28, 2006, by the following vote:

AYES:	KELLEY, LUJANO, SHEEHAN, MATTEUCCI
NOES:	None
ABSENT:	None
ABSTAIN:	None

By: 
Stanton C. Hazelroth, Executive Director

ATTEST:

By: 
Blake Fowler, Secretary

EXHIBIT A

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
INVESTMENT POLICY

**CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK**

INVESTMENT POLICY

Dated March 28, 2006

**California Infrastructure and Economic Development Bank
Investment Policy**

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California Infrastructure and Economic Development Bank Investment Policy

1.0 Policy

This Investment Policy and the related Exhibits (collectively the "Policy") are intended to provide guidelines for the prudent investment of the California Infrastructure and Economic Development Bank ("I-Bank") funds and outline the policies for maximizing the efficiency of the I-Bank's cash management system. The ultimate goal is to enhance the I-Bank's financial return consistent with the prudent protection of the I-Bank's investments while conforming to all applicable state statutes governing the investment of public funds.

2.0 Scope

It is intended that this Policy cover the following funds and accounts: the California Infrastructure and Economic Development Bank Fund ("I-Bank Fund") and the California Infrastructure Guarantee Trust Fund ("Guarantee Trust Fund"), which are held in the State of California's ("State") centralized treasury system ("State Treasury"), accounts related to the Infrastructure State Revolving Fund ("ISRF") Program Revenue Bonds ("ISRF Bonds"), which are held by a bond trustee and for any other bond funds for which the I-Bank is responsible for directing the investment of funds, such as the accounts related to the State School Fund Apportionment Lease Revenue Bonds ("School Bonds").

The Policy is not intended to cover funds of other entities for which the I-Bank serves as the conduit issuer of bonds on their behalf.

3.0 Objectives

The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. The primary objectives, in order of priority, of the I-Bank's investment activities shall be:

- 1) **Safety.** Safety of principal is the foremost objective of the investment program. The I-Bank's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.
- 2) **Liquidity.** The I-Bank's investments will remain sufficiently liquid to enable the I-Bank to meet reasonably anticipated cash flow requirements.
- 3) **Return on Investment.** The I-Bank seeks to optimize the yield on its investments, consistent with constraints imposed by its safety and liquidity objectives.

4.0 Prudence

All persons authorized to make investment decisions on behalf of the I-Bank are fiduciaries and are to be held to the prudent investor standard applicable to California municipal entities: "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."¹

5.0 Delegation of Authority

Consistent with its authority under Government Code Sections 63023 and 63025.1 and pursuant to Resolution 06-13 adopted by the I-Bank Board of Directors ("Board"), the Executive Director is authorized to invest funds of the I-Bank. The Executive Director shall assume full responsibility for those transactions until the delegation of authority is revoked by the Board.

An internal investment advisory committee consisting of the Assistant Executive Director and at least two managers, along with an external investment advisor, shall advise the Executive Director regarding investments and management of the I-Bank's investments.

The Executive Director may delegate the day-to-day investment operations to designated staff. The Executive Director, designated staff and external investment advisor, if any, shall make all investment decisions and transactions in strict accordance with applicable State law, this Policy, and such other written instructions as are adopted by the Board.

6.0 Internal Controls

The Executive Director shall be responsible for all transactions undertaken by the I-Bank's staff, and shall establish a system of controls to regulate the activities of internal staff and any external investment advisors. No person may engage in an investment transaction pertaining to the I-Bank except as provided under the terms of this Policy and the procedures established by the Executive Director.

7.0 Ethics and Conflicts of Interest

Consistent with applicable conflict of interest and incompatible activity provisions, I-Bank employees involved in the investment process shall refrain from personal business activities that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

¹ Government Code section 53600.3.

8.0 Authorized Financial Dealers and Institutions

For any bond related funds that are outside of the State Treasury, a competitive bid process shall be used to place any investment transactions. A minimum of three bids or offers shall be obtained for each transaction, whenever practical and possible. It shall be the I-Bank's policy to purchase or sell securities only with properly licensed institutions and firms that have been approved by the State Treasurer's Office. No deposit of public funds shall be made except in a qualified public depository as established by State law. If an external investment advisor is authorized to conduct investment transactions on the I-Bank's behalf, the investment advisor shall use their own list of approved broker/dealers and financial institutions for investment purposes.

9.0 Safekeeping and Custody

All security transactions entered into by the I-Bank shall be conducted on a delivery-versus-payment basis. All cash and securities in the I-Bank's portfolio shall be held in safekeeping in the I-Bank's name by a third party bank trust department, acting as agent for the I-Bank under the terms of a custody agreement executed by the bank and the I-Bank. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) funds in the I-Bank Fund or Guarantee Trust Fund that are held in the State Treasury, (ii) money market mutual funds, and (iii) structured investment products used for bond fund investments, since these securities are not deliverable. Evidence of each of these investments will be maintained by the I-Bank's Executive Director.

10.0 Authorized and Suitable Investments – Funds in State Treasury

I-Bank Fund. In accordance with Government Code Section 63052(d), the I-Bank may direct the State Treasurer's Office ("STO") to invest the I-Bank Fund in the State's Surplus Money Investment Fund ("SMIF"), a State investment fund which is administered by the STO under the direction of the Pooled Money Investment Board. There is no limitation as to the percentage of the portfolio that may be invested in the SMIF. Alternatively, the I-Bank may direct the STO to invest the I-Bank Fund in any eligible securities specified in Government Code Section 16430 (see Exhibit A). Within the investments permitted by Government Code Section 16430, the I-Bank seeks to provide additional criteria to further restrict eligible investments. This additional criteria is shown as underlined text in Exhibit A. Purchases of individual securities shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Percentage holding limits listed in this section are applied at the time of purchase.

Guarantee Trust Fund. In accordance with Government Code 63062(a) and (b), the I-Bank may direct the STO to invest the Guarantee Trust Fund in SMIF or in any eligible securities specified in Government Code Section 16430 that are consistent with the additional criteria shown as underlined text in Exhibit A. Additionally, the I-Bank may direct the STO to invest the Guarantee Trust Fund in any other eligible securities listed in Government Code Section 63062(a)(see Exhibit B). Within the investments permitted by Government Code Section 63062(a), the I-Bank seeks to provide

additional criteria to further restrict eligible investments. This additional criteria is shown as underlined text in Exhibit B.

11.0 Authorized and Suitable Investments – Bond Funds held by Bond Trustees

Bond funds shall be invested in accordance with the provisions of each bond indenture as authorized by Government Code Section 5922(d) and resolution of the Board. Eligible investments permitted by the 2004 and 2005 ISRF Bonds Series Indenture and 2005 School Bonds Trust Agreement are listed in Exhibits C and D, respectively. In the event an apparent discrepancy is found between this Policy and the applicable bond indenture, the more restrictive parameters will take precedence.

12.0 Prohibited Investments

Any investment in a security not specifically listed in Section 10.0 or 11.0 above, including the related Exhibits, but otherwise permitted by law, is prohibited without the prior approval of the Board. This Policy further specifically disallows investments in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.

13.0 Maximum Maturities

It is the objective of the I-Bank to accurately monitor and forecast revenues and expenditures so that the I-Bank can invest funds to the fullest extent possible. Funds of the I-Bank will be invested in accordance with sound treasury management principles.

Where this Policy does not specify a maximum remaining maturity at the time of the investment, no investment shall be made in any security, other than a collateral security underlying a repurchase agreement or collateral for an investment agreement, that at the time of the investment has a term remaining to maturity in excess of five years, unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board prior to the investment.

With respect to maximum maturities, the Policy authorizes investing bond reserve funds and bond revenue funds beyond five years if prudent in the opinion of the Executive Director.

14.0 Credit Criteria

In the event a security held by the I-Bank is subject to a rating change that brings it below the minimum credit ratings specified in the Policy, the Executive Director shall notify the Board of the change at their next regularly scheduled meeting. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rating drops, and the market price of the security.

15.0 Performance

For surplus funds, the I-Bank seeks to attain market rates of return on its investments throughout economic cycles, consistent with constraints imposed by its safety and liquidity objectives. For any funds not invested in SMIF, the Executive Director shall monitor and report the portfolio's performance in the Executive Director's quarterly report (described in 16.0 below).

For bond funds, the I-Bank seeks to optimize the return on its investments consistent with constraints imposed by its safety and liquidity objectives, arbitrage rebate regulations, and market conditions.

16.0 Reporting

The Executive Director shall submit a monthly transaction report and a quarterly investment report on the I-Bank's investments to the Board. Except for funds invested in SMIF, the quarterly report shall include the following information for each individual investment: description of investment instrument, issuer name, maturity date, credit rating, coupon rate, effective yield, purchase price, par value, book value, current market value and the source of the valuation.

The quarterly report shall also state compliance of the portfolio to the Policy, or manner in which the portfolio is not in compliance, and include a statement denoting the ability of the I-Bank to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money may or may not be available. The quarterly report shall be submitted within 30 days following the end of the month covered by the report.

For bond funds, the Executive Director shall monitor the status of each bond issue to ensure that each issue's arbitrage rebate status is tracked and reported in compliance with the provisions of the Internal Revenue Code and related Treasury Regulations.

17.0 Policy Adoption

This Policy shall be reviewed annually by the Board. Any change in the Policy shall be reviewed and approved by the Board at a regularly scheduled meeting.

Exhibit A
Government Code 16430 Permitted Investments

Note: the underlined text represents additional criteria established by the I-Bank that is not listed in Government Code Section 16430.

Government Code Section 16430:

- a. Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that may be invested in this category.
- b. Bonds or interest-bearing notes on obligations that are guaranteed as to principal and interest by a federal agency of the United States. There is no limitation as to the percentage of the portfolio that may be invested in this category; however, the amount invested in any one issuer, including related entities, may not exceed 30 percent of the portfolio.
- c. Bonds and notes of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest. A maximum of 30 percent of the portfolio may be invested in this category.
- d. Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the state, municipal utility district, or school district of this state. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested with any one issuer, including related entities, shall not exceed 10 percent of the portfolio.
- e. Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, in debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, in bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, in stock, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended, and in the bonds of any federal home loan bank established under that act, obligations of the Federal Home Loan Mortgage Corporation, in bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended, and bonds, notes, and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended. There is no limitation as to the percentage of the portfolio that may be invested in this category; however, the amount invested in any one issuer, including related entities, may not exceed 30 percent of the portfolio.
- f. (1) Commercial paper of "prime" quality as defined by a nationally recognized organization that rates these securities. Eligible paper is further limited to issuing corporations, trusts, or

limited liability companies approved by the Pooled Money Investment Board that meet the conditions in either subparagraph (A) or subparagraph (B):

(A) Both of the following: (i) Organized and operating within the United States. (ii) Having total assets in excess of five hundred million dollars (\$500,000,000).

(B) Both of the following: (i) Organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Having program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.

(2) Purchases of eligible commercial paper may not exceed 180 days' maturity, represent more than 10 percent of the outstanding paper of an issuing corporation, trust, or limited liability company, nor exceed 30 percent of the resources of an investment program. At the request of the Pooled Money Investment Board, this investment shall be secured by the issuer by depositing with the Treasurer securities authorized by Section 53651 of a market value at least 10 percent in excess of the amount of the state's investment. The amount invested in commercial paper of any one issuer in combination with any other securities from that issuer, including related entities, shall not exceed 10 percent of the portfolio.

- g. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System. A maximum of 40 percent of the portfolio may be invested in this category. The amount invested in bankers acceptances with any one financial institution in combination with any other securities from that financial institution, including related financial institutions, shall not exceed 10 percent of the portfolio.
- h. Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union. For the purposes of this section, negotiable certificates of deposits do not come within the provisions of Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600). The amount invested in negotiable certificates of deposits with any one financial institution in combination with any other securities from that financial institution, including related financial institutions, shall not exceed 10 percent of the portfolio.
- i. The portion of bank loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration. A maximum of 25 percent of the portfolio may be invested in this category.
- j. Bank loans and obligations guaranteed by the Export-Import Bank of the United States. A maximum of 10 percent of the portfolio may be invested in this category.
- k. Student loan notes insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1001 and following) and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S.C. Sec. 1087-2). A maximum of 10 percent of the portfolio may be invested in this category.

- l. Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, or the Government Development Bank of Puerto Rico. The amount invested in any one issuer may not exceed 10 percent of the portfolio.
- m. Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment under this subdivision shall be within the top three ratings of a nationally recognized rating service. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in corporate notes of any one issuer in combination with any other securities from that issuer, including related entities, shall not exceed 10 percent of the portfolio.

Exhibit B
Government Code 63062(a) Permitted Investments

Note: the underlined text represents additional criteria established by the I-Bank that is not listed in Government Code Section 16430.

Government Code 63062(a):

The I-Bank may, from time to time, direct the Treasurer to invest moneys in the guarantee trust fund that are not required for its current needs in any eligible securities specified in Section 16430 that the bank shall designate. The amount invested in any eligible security shall not exceed the limits permitted under Appendix A. The I-Bank may direct the Treasurer to invest the moneys by entering into repurchase agreements or reverse repurchase agreements, which, for purposes of this section, shall mean agreements for the purchase or sale of eligible securities pursuant to which the seller or buyer agrees to repurchase or sell back the securities on or before a specified date and for a specified amount. The I-Bank may direct the Treasurer to invest the moneys in the subordinated securities of the bank, a special purpose trust, or a sponsor. The I-Bank may direct the Treasurer to invest the moneys in investment agreements with corporations, financial institutions, or national associations within the United States that are rated by a nationally recognized rating service within the top three rating categories of the service. For purposes of this section, investment agreements shall mean any agreement for the investment of moneys in the guarantee trust fund whether at fixed or variable interest rates, and may include, but not be limited to, repurchase agreements, notes, uncollateralized time deposits, certificates of deposit, and the subordinated securities of the bank, a special purpose trust, or a sponsor. The I-Bank may direct the Treasurer to deposit moneys in interest-bearing accounts in state or national banks or other financial institutions having principal offices in this state. Investments types permitted under Government Code 63062(a), but not otherwise specified in Section 16430, shall meet the minimum criteria for purchase as required under the relevant section in Exhibit D.

Exhibit C
Infrastructure State Revolving Fund Revenue Bonds
Permitted Investments per Series 2004 and 2005 Indentures

“Permitted Investments” means any of the following, if and to the extent the same are at the time legal for investment of funds held under this Series Indenture:

- a. Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- b. Bonds or interest-bearing notes on obligations that are guaranteed as to principal and interest by a federal agency of the United States.
- c. Bonds and notes of the State, or those for which the faith and credit of the State are pledged for the payment of principal and interest, provided that the ratings of such bonds and notes of the State are rated within the top three rating categories, ignoring modifiers, by S&P, Moody’s and Fitch, if rated by Fitch.
- d. Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, State water district, State water storage district, irrigation district in the State, municipal utility district, or school district of the State, provided that the ratings of such bonds or warrants are rated within the top three rating categories, ignoring modifiers, by S&P, Moody’s and Fitch, if rated by Fitch.
- e. Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, in debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, in bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, in stock, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended, and in the bonds of any federal home loan bank established under that act, obligations of the Federal Home Loan Mortgage Corporation, in bonds, notes, and other obligations issued by the Tennessee Valley Issuer under the Tennessee Valley Act as amended, and bonds, notes, and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended.
- f. Commercial paper rated within the top two rating categories, ignoring modifiers, by S&P, Moody’s and Fitch, if rated by Fitch. Eligible paper is further limited to issuing corporations or trusts approved by the State of California Pooled Money Investment Board that meet the conditions in either subparagraph (A) or subparagraph (B):

(A) Both of the following: (i) Organized and operating within the United States. (ii) Having total assets in excess of five hundred million dollars (\$500,000,000).

- (B) Both of the following: (i) Organized within the United States as a special purpose corporation or trust. (ii) Having program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.

Purchases of eligible commercial paper may not exceed 180 days' maturity, represent more than 10 percent of the outstanding paper of an issuing corporation or trust, nor exceed 30 percent of the resources of an investment program. At the request of the State of California Pooled Money Investment Board, the investment shall be secured by the Issuer by depositing with the State Treasurer securities authorized by California Government Code Section 53651 having a market value at least 10 percent in excess of the amount of the state's investment.

- g. Bills of exchange or time drafts drawn on and accepted by a commercial bank rated in the top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch, otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System.
- h. Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union rated in the top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch. For the purposes of this definition, negotiable certificates of deposits do not come within the provisions of Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600) of the California Government Code.
- i. The portion of bank loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration.
- j. Bank loans and obligations guaranteed by the Export-Import Bank of the United States.
- k. Student loan obligations insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1001 and following) with debt rated in the top three rating categories by S&P, Moody's and Fitch, if rated by Fitch and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S.C. Sec. 1087-2).
- l. Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, or the Government Development Bank of Puerto Rico and rated in the top three rating categories by S&P, Moody's and Fitch, if rated by Fitch.
- m. Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment under this subdivision (m) shall be within the top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.

- n. The California State Surplus Money Investment Fund established pursuant to California Government Code Section 16470, as amended from time to time.
- o. Repurchase agreements with entities rated in top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.
- p. Investments or other contractual arrangements with corporations, financial institutions or national associations within the United States, provided that the senior long-term debt of such corporations, institutions or associations or any guarantor of the debt of such corporations, institutions, or associations ("providers"), is rated within the top two rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch; or such investments or other contractual arrangements are collateralized by Permitted Investments of the type and in the amounts consistent with maintaining the then-current ratings on the 2005 Bonds by each of the Rating Agencies, but in all events the senior long-term debt of such providers shall be rated in the top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.
- q. Forward purchase agreements collateralized with obligations described in (a) through (d) above with corporations, financial institutions or national associations within the United States rated in the top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.
- r. Money market funds including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provide investment advisory or other management services rated in the top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.

Exhibit D
State School Fund Apportionment Lease Revenue Bonds
Permitted Investments per Indenture

“Permitted Investments” means any of the following that at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (provided that the Trustee may rely upon investment direction of the I-Bank as a determination that such investment is a legal investment):

1. Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America (“U.S. Government Securities”).
2. Direct obligations of the following federal agencies which are fully guaranteed by the full faith and credit of the United States of America:
 - (a) Export-Import Bank of the United States – Direct obligations and fully guaranteed certificates of beneficial interest
 - (b) Federal Housing Administration – debentures
 - (c) General Services Administration – participation certificates
 - (d) Government National Mortgage Association (“GNMAs”) – guaranteed mortgage-backed securities and guaranteed participation certificates
 - (e) Small Business Administration – guaranteed participation certificates and guaranteed pool certificates
 - (f) U.S. Department of Housing & Urban Development – local authority bonds
 - (g) U.S. Maritime Administration – guaranteed Title XI financings
 - (h) Washington Metropolitan Area Transit Authority – guaranteed transit bonds
3. Direct obligations of the following federal agencies which are not fully guaranteed by the full faith and credit of the United States of America:
 - (a) Federal National Mortgage Association (“FNMA”) – senior debt obligations rated Aaa by Moody’s Investors Service (“Moody’s”) and AAA by Standard & Poor’s Ratings Services (“S&P”)
 - (b) Federal Home Loan Mortgage Corporation (“FHLMCs”) – participation certificates and senior debt obligations rated Aaa by Moody’s and AAA by S&P
 - (c) Federal Home Loan Banks – consolidated debt obligations
 - (d) Student Loan Marketing Association – debt obligations

(e) Resolution Funding Corporation – debt obligations

4. Direct, general obligations of any state of the United States of America or any subdivision or agency thereof whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P.
5. Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, P-1 by Moody's and A-1 or better by S&P.
6. Certificates of deposit, savings accounts, deposit accounts or money market deposits in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation ("FDIC"), including the Bank Insurance Fund and the Savings Association Insurance Fund.
7. Certificates of deposit, deposit accounts, federal funds or bankers' acceptances (in each case having maturities of not more than 365 days following the date of purchase) of any domestic commercial bank or United States branch office of a foreign bank, provided that such bank's short-term certificates of deposit are rated P-1 by Moody's and A-1 or better by S&P (not considering holding company ratings).
8. Investments in money-market funds rated AAAm or AAAm-G by S&P.
9. State-sponsored investment pools rated AA- or better by S&P.
10. Repurchase agreements that meet the following criteria:
 - (a) A master repurchase agreement or specific written repurchase agreement, substantially similar in form and substance to the Public Securities Association or Bond Market Association master repurchase agreement, governs the transaction.
 - (b) Acceptable providers shall consist of (i) registered broker/dealers subject to Securities Investors' Protection Corporation ("SIPC") jurisdiction or commercial banks insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed rating of A3/P-1 or better by Moody's and A-/A-1 or better by S&P, or (ii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.
 - (c) The repurchase agreement shall require termination thereof if the counterparty's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's, or A- or A-1 from S&P. Within ten (10) days, the counterparty shall repay the principal amount plus any accrued and unpaid interest on the investments.
 - (d) The repurchase agreement shall limit acceptable securities to U.S. Government Securities and to the obligations of GNMA, FNMA or FHLMC described in 2(d), 3(a) and 3(b) above. The fair market value of the securities in relation to the amount of the

repurchase obligation, including principal and accrued interest, is equal to a collateral level of at least 104% for U.S. Government Securities and 105% for GNMA's, FNMA's or FHLMC's. The repurchase agreement shall require (i) the Trustee or the Agent to value the collateral securities no less frequently than weekly, (ii) the delivery of additional securities if the fair market value of the securities is below the required level on any valuation date, and (iii) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two (2) business days of such valuation.

- (e) The repurchase securities shall be delivered free and clear of any lien to the bond trustee (herein, the "Trustee") or to an independent third party acting solely as agent ("Agent") for the Trustee, and such Agent is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits or, if appropriate, a net worth, of not less than \$50 million, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee.
 - (f) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the issuer and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof.
 - (g) The repurchase agreement shall have a term of one year or less, or shall be due on demand.
 - (h) The repurchase agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the repurchase securities, unless the Bond Insurer directs otherwise:
 - (i) insolvency of the broker/dealer or commercial bank serving as the counterparty under the repurchase agreement;
 - (ii) failure by the counterparty to remedy any deficiency in the required collateral level or to satisfy the margin maintenance call under item 10(d) above; or
 - (iii) failure by the counterparty to repurchase the repurchase securities on the specified date for repurchase.
11. Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria:
- (a) A master agreement or specific written investment agreement governs the transaction.
 - (b) Acceptable providers of uncollateralized investment agreements shall consist of (i) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least Aa2 by Moody's and AA by S&P; (ii) domestic insurance companies rated Aaa by Moody's and AAA by S&P; and (iii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.

- (c) Acceptable providers of collateralized investment agreements shall consist of (i) registered broker/dealers subject to SIPC jurisdiction, if such broker/dealer has an uninsured, unsecured and unguaranteed rating of A1 or better by Moody's and A+ or better by S&P; (ii) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least A1 by Moody's and A+ by S&P; (iii) domestic insurance companies rated at least A1 by Moody's and A+ by S&P; and (iv) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P. Required collateral levels shall be as set forth in 11(f) below.
- (d) The investment agreement shall provide that if the provider's ratings fall below Aa3 by Moody's or AA- by S&P, the provider shall within ten (10) days either (i) repay the principal amount plus any accrued and interest on the investment; or (ii) deliver Permitted Collateral as provided below.
- (e) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below A3 from Moody's or A- from S&P. Within ten (10) days, the provider shall repay the principal amount plus any accrued interest on the agreement, without penalty.
- (f) The investment agreement shall provide for the delivery of collateral described in (i) or (ii) below ("Permitted Collateral") which shall be maintained at the following collateralization levels at each valuation date:
 - (i) U.S. Government Securities at 104% of principal plus accrued interest; or
 - (ii) Obligations of GNMA, FNMA or FHLMC (described in 2(d), 3(a) and 3(b) above) at 105% of principal and accrued interest.
- (g) The investment agreement shall require the Trustee or Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent that there are excess amounts over the required levels. Market value, with respect to collateral, may be determined by any of the following methods:
 - (i) the last quoted "bid" price as shown in Bloomberg, Interactive Data Systems, Inc., The Wall Street Journal or Reuters;
 - (ii) valuation as performed by a nationally recognized pricing service, whereby the valuation method is based on a composite average of various bid prices; or
 - (iii) the lower of two bid prices by nationally recognized dealers. Such dealers or their parent holding companies shall be rated investment grade and shall be market makers in the securities being valued.
- (h) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent.

- (i) The provider shall grant the Trustee or the Agent a perfected first security interest in any collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under 11(f) above, the Trustee and the Bond Insurer shall receive an opinion of counsel as to the perfection of the security interest in the collateral.
- (j) The investment agreement shall provide that moneys invested under the agreement must be payable and putable at par to the Trustee without condition, breakage fee or other penalty, upon not more than two (2) business days' notice, or immediately on demand for any reason for which the funds invested may be withdrawn from the applicable fund or account established under the authorizing document, as well as the following:
 - (i) In the event of a deficiency in the Debt Service Account;
 - (ii) Upon acceleration after an Event of Default;
 - (iii) Upon refunding of the Bonds in whole or in part;
 - (iv) Reduction of the Reserve Fund Requirement for the bonds; or
 - (v) If a determination is later made by a nationally recognized bond counsel that investments must be yield-restricted.

Notwithstanding the foregoing, the agreement may provide for a breakage fee or other penalty that is payable in arrears and not as a condition of a draw by the Trustee if the issuer's obligation to pay such fee or penalty is subordinate to its obligation to pay debt service on the Bonds and to make deposits to the Reserve Fund.

- (k) The investment agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the investment securities, unless:
 - (i) Failure of the provider or the guarantor (if any) to make a payment when due or to deliver Permitted Collateral of the character, at the times or in the amounts described above;
 - (ii) Insolvency of the provider or the guarantor (if any) under the investment agreement;
 - (iii) Failure by the provider to remedy any deficiency with respect to required Permitted Collateral;
 - (iv) Failure by the provider to make a payment or observe any covenant under the agreement;
 - (v) The guaranty (if any) is terminated, repudiated or challenged; or
 - (vi) Any representation of warranty furnished to the Trustee or the issuer in connection with the agreement is false or misleading.

- (l) The investment agreement must incorporate the following general criteria:
 - (i) "Cure periods" for payment default shall not exceed two (2) business days;
 - (ii) The agreement shall provide that the provider shall remain liable for any deficiency after application of the proceeds of the sale of any collateral, including costs and expenses incurred by the Trustee or the Bond Insurer;
 - (iii) Neither the agreement or guaranty agreement, if applicable, may be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior consent of the Bond Insurer;
 - (iv) If the investment agreement is for the Reserve Fund, reinvestments of funds shall be required to bear interest at a rate at least equal to the original contract rate.
 - (v) The provider shall be required to immediately notify the Bond Insurer and the Trustee of any event of default or any suspension, withdrawal or downgrade of the provider's ratings;
 - (vi) The agreement shall be unconditional and shall expressly disclaim any right of set-off or counterclaim;
 - (vii) The agreement shall require the provider to submit information reasonably requested by the Bond Insurer, including balance invested with the provider, type and market value of collateral and other pertinent information.
- 12. Forward delivery agreements in which the securities delivered mature on or before each Interest Payment Date (for debt service or the Reserve Fund) or draw down date (construction funds) that meet the following criteria:
 - (a) A specific written investment agreement governs the transaction.
 - (b) Acceptable providers shall be limited to (i) any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P; (ii) any commercial bank insured by the FDIC, if such bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P; and (iii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.
 - (c) The forward delivery agreement shall provide for termination or assignment (to a qualified provider hereunder) of the agreement if the provider's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's or A- or A-1 from S&P. Within ten (10) days, the provider shall fulfill any obligations it may have with respect to shortfalls in market value. There shall be no breakage fee payable to the provider in such event.
 - (d) Permitted securities shall include the investments listed in 1, 2 and 3 above.

- (e) The forward delivery agreement shall include the following provisions:
 - (i) The permitted securities must mature at least one (1) business day before an Interest Payment Date or scheduled draw. The maturity amount of the permitted securities must equal or exceed the amount required to be in the applicable fund on the applicable valuation date.
 - (ii) The agreement shall include market standard termination provisions, including the right to terminate for the provider's failure to deliver qualifying securities or otherwise to perform under the agreement. There shall be no breakage fee or penalty payable to the provider in such event.
 - (iii) Any breakage fees shall be payable only on Interest Payment Dates and shall be subordinated to the payment of debt service on the Bonds and Reserve Fund replenishments.
 - (iv) The provider must submit at closing a bankruptcy opinion to the effect that upon any bankruptcy, insolvency or receivership of the provider, the securities will not be considered to be a part of the provider's estate, and otherwise acceptable to the Bond Insurer.
 - (v) The agreement may not be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior written consent of the Bond Insurer.
- 13. Forward delivery agreements in which the securities delivered mature after the funds may be required but provide for the right of the issuer or the Trustee to put the securities back to the provider under a put, guaranty or other hedging arrangement, only with the prior written consent of the Bond Insurer; provided that any such investment provider is rated at least A-/A-1 or better by S&P.
- 14. Any other investment approved in writing by the Bond Insurer; provided that any such investment provider is rated at least A-/A-1 or better by S&P.